



House Bill 1034

Extension of ERO to 2010 – No Change in Member Calculation

Sponsor: Black, William

Summary: The Early Retirement Option (ERO) expires on June 30, 2005. The legislation extends the ERO program through 2010, making one change in the existing program.

Background: The ERO was established in 1980. The program has been extended every five years since its inception. The ERO allows members to avoid the early retirement discount. The early retirement discount reduces an annuity by .5 percent per month that the member is under the age of 60.

The member and employer contributions are different, but the member's highest salary used in determining the annuity is used in both calculations. All employer and member contributions are waived if the member has 34 years of service credit.

- Employer contribution is equal to: 20 percent times the number of years the member is under the age of 60. The resulting percentage is applied to the salary and the result is the employer contribution.
- Member contribution is equal to 7 percent times the lesser of the following:
 - Number of years under the age of 60
 - Number of years under 35 years of service

The resulting percentage is applied to the salary and the result is the member contribution.

School districts can limit utilization of the ERO to 30 percent of the ERO eligible teachers in the district. If this limitation is used, teachers with the most seniority must be given the first opportunity to retire under the ERO.

Analysis: The legislation seeks to extend a program that has been part of TRS for over 20 years. Many teachers have made retirement plans based upon the availability of this program. If a teacher has less than 34 years of service at the time the program expires and is not 55 years of age does not have 20 years of service they cannot retire under the ERO. If a teacher has 34 years of service and turn 55 within 6 months of the expiration of the program they are eligible for the program.

Cost: The cost of extending the ERO to 2010 is \$858.3 million. Of this total, \$705.1 million is the cost of waiving the contributions for members with 34 years of

service, \$153.2 million is the cost of member and employer contributions not meeting actual cost.

There is also a cost if the ERO is not extended due to increased rates of retirement. The cost of not extending the ERO ranges from \$206.7 million to \$367.2 million depending on the utilization of the ERO by the 15,057 members that are eligible for the program through June 30, 2005.